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BEFORE THE ARIZONA CORPORATION COMMISSION

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Arizona Corporation Commission
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IN THE MATTER OF THE APPLICATION OF PARK WATER COMPANY, INC. FOR AN INCREASE IN ITS WATER RATES

DOCKET NO: W-02353A-14-0323

PARK WATER COMPANY'S SURREPLY

Park Water Company, Inc., ("Company" or "Park") hereby submits its surreply. For the reasons stated below, the Company maintains that the recommended opinion and order in this matter should adopt Park's position.

Preliminary Statement

In July of 2011, the Commission followed Staff's recommendation and determined Park's revenue requirement was $110,636. *See* Decision 72487 at p. 10, ¶ 47 – 50. Park has never come close to generating that amount of revenue. Metered water sales were supposed to generate $109,250,[1] but instead the "conservation rate design" has produced revenues around $85,000 each year. *See* Attachment 1. This is approximately **20% below** the Commission approved revenue requirement. In fact, the most revenue Staff's rate design has ever produced in metered water sales was $88,191, which is **below the Company's 2010 operating expenses** of $89,775. In addition to expenses, this revenue is supposed to cover a $17,100 annual WIFA debt payment. In other words, on paper Staff's conservation rate design generates enough revenue to pay for $89,775 of operating expenses and $17,100 of WIFA debt service. *See* Decision 72487 at p. 10, ¶ 49 and ¶ 52. But in reality, the Company suffered a 20% revenue shortfall, leaving the Company in financial hardship, causing net losses annually (*See* Attachment 1), leaving Park unable to pay reasonable expenses or make the most basic system repairs and maintenance.

When small water companies like Park face such financial distress, they are told, "file a rate case." When they complain during the rate case about losing money year after year, they are told "you should have filed a rate case sooner." The insinuation is that filing rate cases will fix the problem.

Unfortunately, as Park's history demonstrates, this is not true. Since 2003, Park has filed for rate increases **five** times.[2] Yet, it is still underfunded and the situation continues to get worse. From 2011 to 2014, Park's metered revenues have ranged from

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[1] The additional $1,386 is other water revenues.

[2] The Company filed two emergency rate cases (2003, 2009) and three standard applications (2004, 2010, 2014).

$83,437 to $88,191, which again is less than reasonable expenses incurred five years ago. Like most businesses, Park can only spend the money it earns, and with such pitiful revenues, the Company was forced to reduce every expense possible and make only emergency system repairs. Now the system is falling into disrepair and the Company has no money to stop it.

So the Company filed for its fifth rate increase in 11 years. In this case, Staff continually asserts that Company revenues will increase when compared to the test year. But Staff fails to mention that its recommendation **decreases** the Company's revenue requirement from $110,636 set in 2010 to $105,152. Even more troubling, Staff ignores the problem created by its conservation rate design, asserting once again "its rate design properly promotes conservation, while allowing ratepayers more flexibility in controlling their water bills." *See* Staff's Reply at p. 2 (Feb. 17, 2015).

As summarized below, Park is the perfect example of the plight of a small water company.

1. Park filed five rate applications in 11 years.

2. Park's 2010 revenue requirement was $110,636.

3. Staff's conservation rate design was adopted in the last rate case.

4. Conservation occurred and Park's revenues were fell below the revenue requirement by more than 20%.

5. With metered revenues around $85,000 a year and $17,100 in WIFA payments, Park had to cut operating expenses to a bare minimum and went in debt to vendors and service providers.

6. Consequently, Park's test year spending reflects minimum operational expenses and no repairs and maintenance costs.

7. Based upon these depressed revenues and expenditures, Staff recommends a 22.6% "increase" to test year revenues, but this "increase" actually decreases Park's revenue requirement from $110,636 (2010) to $105,152.

8. Making the problem even worse, without any consideration for the proven fact that Park's customers will respond to conservation rates, Staff once again assumes much of the revenue "increase" will come from the high water users.

The bottom line is that the purported increase is actually a revenue requirement decrease, and much of that alleged increase is illusory because the projected revenues are shifted to high-end users, who have already proven they will use less water to save money.

Like so many other small water companies, Park is in a death spiral because two common sense and obvious facts are being ignored. First, the Company's **financial needs have not gone down** in the past 5 years; its **spending has gone down** because it does not have enough revenue to cover all of its financial needs. Second, Staff is using rate design to promote water conservation on one hand; but ignores the financial impact conservation will have on the water companies. This approach is exasperating the financial problems with small water companies, leaving them unable to continue to make reasonable system repairs and maintenance.

<u>Rate Design</u>

As explained above, the rate design recommended by Staff in the last rate case is a primary reason the Company is in financial distress. To be clear, the Company does not oppose water conservation. Water conservation is a sound public policy, but it makes no sense to design rates that effectively sacrifice the Company's ability to maintain the water system for the sake of conservation.

Meanwhile, the Company's approach is reasonable. Park proposes the monthly minimum/commodity rate revenue should be a 50/50 split. The Company adopts tiered rates as well, which also promotes water conservation. The difference is that Park's rate design offers the Company a stable revenue stream, whereas Staff's revenue design relies heavily on the high-end commodity charges, which conservation will reduce. Thus, Park's rate design should be adopted.

Cash Flow

In its reply, Staff ignores the fact that its cash flow calculation is wrong. Staff recommends Park's cash flow should be $21,808. But the math below illustrates Staff's proposal would result in cash flow of $13,443, $8,737 less than Staff claims.

Correct Cash Flow Calculation Under Staff's Proposal		
Operating income		$15,108
Depreciation expense		+ $15,437
	Subtotal	$30,545
WIFA Payment		–$17,102
Cash Flow		**$13,443**

Parks proposal results in cash flow of $21,721, which is virtually the same amount Staff proclaims to recommend for the Company. Therefore, Park's proposed revenue requirement of $115,766 should be adopted.

Rate Base

With respect to the rate base issues raised, Park and Staff now agree that the proper CIAC amortization rate is 2.00% instead of 6.60%. Staff has also revised its recommendation for accumulated depreciation to within an immaterial amount of that proposed by Park.

However, Staff continues to disagree about the proper classification of the $1,291 of computer equipment from the last rate case, in spite of evidence that this was an error. Park submitted ample evidence from the last case to demonstrate how this error was perpetuated, and the Company should be allowed to correctly account for this equipment on its books.

BMPs

Park continues to assert it is unnecessary to adopt additional BMPs. Park is regulated by, and compliant with, the Arizona Department of Water Resources ("ADWR") rules, which includes its BMP program. Park's water loss is less than 10%.

Conclusion

Since 2003, Park has undergone two emergency rate cases and three permanent rate cases. As a small water company with constant financial challenges, it has adhered to the often repeated mantra of "file a rate case." But the rate cases are not fixing the problems; they are exasperating them – more regulation, more rate case expense, and higher conservation rates resulting in more debt and less revenue. If this continues, the Park system will fall into such disrepair it will need to be rebuilt, costing millions of dollars.

The Company does not want this to happen. Under its proposal, Park will have the revenue operate in a reasonable manner. Therefore, the Company requests that the Commission adopt the revised Company position set forth in its response filed on January 16, 2015.

RESPECTFULLY SUBMITTED this 6th day of March, 2015.

MOYES SELLERS & HENDRICKS LTD.

Steve Wene

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Original and 13 copies of the foregoing filed this 6th day of March, 2015 with:

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Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Donnelly Herbert

ATTACHMENT 1

Park Water Company, Inc.
Docket No. W-02353A-14-0323

Schedule 1

Annual Metered Water Revenue Compared to Revenue Requirements

Year	Metered Water Revenue	Revenue Requirement	$ variance from Rev Require	% variance from Rev Require	Net Income/Loss	Notes
2007	$ 72,076	$ 68,720	$ 3,356	4.88%	$ 16,145	
2008	66,643	68,720	(2,077)	-3.02%	2,841	
2009	68,805	68,720	85	0.12%	(1,146)	
2010	79,847	68,720	11,127	16.19%	2,735	a
2011	83,437	109,250	(25,813)	-23.63%	(8,609)	
2012	88,191	109,250	(21,059)	-19.28%	(3,693)	
2013	84,613	109,250	(24,637)	-22.55%	(3,346)	
2014	83,923	109,250	(25,327)	-23.18%	(3,344)	b

Decision No.	Revenue Requirement	Effective Date
67165	$ 68,720	10-Aug-04
71421	emerg surch	08-Dec-09
72487	109,250	25-Jul-11
tbd	104,000	Staff's current recommendation

a. Decision 71421 authorized a $12 per customer per month emergency surcharge that was effective for 12 months, causing the abnormal jump in revenue in 2010.

b. Not final.